

To: ONE Joint Investment Board
 From: Keith Taylor, Chief Investment Officer, ONE Investment
 Date: November 17, 2021
 Re: Municipality of Neebing's Investment Plan
 Report: ONE JIB-O46-21

1. RECOMMENDATIONS

It is recommended that the Board:

1. Approve the Municipality of Neebing's proposed Investment Plan (Attachment 1).
2. Receive the Municipality of Neebing's Municipal Client Questionnaire (Attachment 2).

2. SUMMARY

The Municipality of Neebing has agreed to join the ONE JIB as a Participating Municipality. As part of the process under the applicable provincial regulation, the ONE JIB must develop and approve an Investment Plan for the Municipality.

Neebing will allocate \$2.36 million in MNRI to be invested under the care and control of the ONE JIB. The Municipality's anticipated investment horizon is very long, but Neebing has some near-term spending needs that involve some level of uncertainty. Expected annual returns based on the allocations in the proposed Investment Plan are in the range of 4.2%. The effective date for Neebing to join the ONE JIB is January 1, 2022. The MNRI is expected to be deployed into the investment Outcomes within two weeks of the effective date.

The proposed investment allocations, which reflect consolidated holdings across ONE Investment Outcomes, are presented below:

| ONE Investment Funds & HISA | Total Invested (\$) | Portfolio Weight (%) |
|-----------------------------------|---------------------|----------------------|
| ONE HISA | \$ 340,000 | 14.4 |
| ONE Canadian Equity Fund | 370,800 | 15.7 |
| ONE Global Equity Fund | 865,200 | 36.7 |
| ONE Canadian Government Bond Fund | 117,600 | 5.0 |
| ONE Canadian Corporate Bond Fund | 117,600 | 5.0 |
| ONE Global Bond Fund | 548,800 | 23.3 |
| Total | \$ 2,360,000 | 100.0 |

3. BACKGROUND

Neebing will be contributing approximately \$2.36 million in MNRI in 2022

Neebing's MNRI can be categorized into the following types:

1. Capital Reserves
2. Stabilization reserves
3. Contingency reserves.

Table 2, below, adapted from the Municipal Client Questionnaire (MCQ), shows the breakdown in dollar values by reserve type, category, and investment horizon.

Prior to deciding to join ONE JIB, the Municipality approved its first 10-year capital plan. The capital plan was based on its asset management plan data and is therefore robust. However, there is some uncertainty related to road upgrade costs in the 2-to-5-year range, but the Municipality is confident that it can manage that uncertainty with its MRI. Approximately half of their capital reserves is allocated to the 10+ year range. The stabilization reserves typically have shorter cycles than the 5+ year range (e.g., municipal elections every four years); however, these reserves also receive contributions in the years they are being drawn upon, which typically leaves a residual balance that can be invested for a longer time horizon. Neebing has traditional contingency reserves for managing unexpected costs such as costs associated with Ontario Land Tribunal hearings and managing forest fires; these reserves have a less predictable time horizon, but 5+ years was determined to be a reasonably safe assumption.

Table 1: MNRI by Type, Category and Time Horizon, adapted from MCQ section 4.2 (rounded to \$ thousands)

| Reserve Type | Category | Comments | MNRI Amount | Investment Horizon of MNRI | | | |
|------------------------|----------------------|---|--------------|----------------------------|------------|------------|--------------|
| | | | | 24 months to 3 years | 3-5 years | 5-10 years | 10+ years |
| Capital Reserves | Target Date | Parks, Fire department, Landfill, Public Works, Capital program stabilization | 2,000 | 303 | 197 | 500 | 1,000 |
| Stabilization Reserves | Contingency Reserves | Elections, IT reserves | 24.2 | - | - | 24.2 | |
| Contingency Reserves | Contingency Reserves | OMB hearings/planning, forest fire fighting reserves | 335.8 | - | | 335.8 | |
| MNRI Total | | | 2,360 | 303 | 197 | 860 | 1,000 |

The Municipality anticipates withdrawals of \$0.5 million within the next five years before contributing another \$0.7 million in the 5-to-10-year range

Neebing's MNRI forecasts anticipates drawdowns in the 2-to-5-year period, which are largely tied to expected capital expenditures associated with their target date reserves. The

Municipality's forecasts do not anticipate new contributions to MNRI during that period, but they do forecast MNRI growing in the last five years of their 10-year forecast. As noted above, the Municipality has capital projects (e.g., road upgrades) planned that will require drawing MNRI down by \$0.3 million in 2024, \$0.15 million in 2025, and \$0.04 million in 2026. In the 5-to-10-year range Neebing is expecting net contributions of approximately \$0.7 million.

Table 2: Forecast contributions and withdrawals - adapted from MCQ 4.2 (\$ thousands)

| Type | 2023 | 2024 | 2025 | 2026 | 2027-2031 |
|--------------------------------|------|-------|-------|------|-----------|
| Anticipated MNRI Drawdowns | 0 | (300) | (150) | (40) | 0 |
| Anticipated MNRI Contributions | 0 | 0 | 0 | 0 | 700 |
| Net change in MNRI | 0 | (300) | (150) | (40) | 700 |

4. ANALYSIS

Neebing's \$2.36 million MNRI will be transitioned to the ONE JIB as a cash contribution

Neebing will have \$2.36 million available for the ONE JIB to invest. Current holdings of ONE Investment Legal List Portfolios will be liquidated by the Municipality to fund the transfer of MNRI to the ONE JIB. It is anticipated that the Treasurer will liquidate Legal List securities in the 2021 calendar year and remit cash to the ONE JIB to invest. The Effective Date for Neebing to join the ONE JIB is January 1, 2022, with the transfer of MNRI to the ONE JIB accounts and investment into the underlying Outcomes/securities to occur within two weeks of the effective date.

The proposed mapping to Outcomes and resulting asset allocation is consistent with Neebing's time horizon, risk tolerances and objectives

Capital reserves account for approximately 76% of Neebing's MNRI. The Municipality estimates that approximately half of that will be required within the next ten years, which means that \$1.0 million can be invested with a longer time horizon, while the remainder of their capital reserves are mapped to target date horizons that match their capital plan. The reserves with a 5-to-10-year horizon can be invested at moderate risk levels, and the reserves with shorter time horizons can be invested in more liquid securities that will lower the portfolio's overall risk profile significantly. Mapping the MNRI to Outcomes was done using the information provided in the MCQ and through discussions with the Treasurer to ensure a common understanding of the uses and purpose of the MNRI. Asset allocations (Table 4 below) and fund allocations (Tables 5 and 6 below) were determined using the ONE JIB's Outcomes Framework.

Table 3: Proposed Outcome Mapping and Asset Allocation

| Outcome | Total Invested (\$) | Portfolio Weight (%) | HISA (%) | Fixed Income (%) | Equities (%) | Total (%) |
|------------------------|---------------------|----------------------|----------|------------------|--------------|-----------|
| Cash | 300,000 | 12.7 | 100 | - | - | 100 |
| Contingency | 360,000 | 15.3 | - | 40 | 60 | 100 |
| Target Date 3-5 Years | 200,000 | 8.5 | 20 | 70 | 10 | 100 |
| Target Date 5-10 Years | 500,000 | 21.2 | - | 50 | 50 | 100 |
| Target Date 10+ Years | 1,000,000 | 42.4 | - | 25 | 75 | 100 |
| Total | 2,360,000 | 100.0 | | | | |

Table 5: Proposed Pooled Fund-Level Allocation

| ONE Investment Funds & HISA | Total Invested (\$) | Portfolio Weight (%) |
|-----------------------------------|---------------------|----------------------|
| ONE HISA | \$ 340,000 | 14.4 |
| ONE Canadian Equity Fund | 370,800 | 15.7 |
| ONE Global Equity Fund | 865,200 | 36.7 |
| ONE Canadian Government Bond Fund | 117,600 | 5.0 |
| ONE Canadian Corporate Bond Fund | 117,600 | 5.0 |
| ONE Global Bond Fund | 548,800 | 23.3 |
| Total | \$ 2,360,000 | 100.0 |

Table 6: Proposed Pooled Fund Allocations by Outcome (values in \$ millions)

| Outcome | ONE HISA | ONE Canadian Equity Fund | ONE Global Equity Fund | ONE Canadian Government Bond Fund | ONE Canadian Corporate Bond Fund | ONE Global Bond Fund | Total |
|------------------------|----------|--------------------------|------------------------|-----------------------------------|----------------------------------|----------------------|-----------|
| Cash | 300,000 | - | - | - | - | - | 300,000 |
| Contingency | - | 64,800 | 151,200 | 21,600 | 21,600 | 100,800 | 360,000 |
| Target Date 3-5 Years | 40,000 | 6,000 | 14,000 | 21,000 | 21,000 | 98,000 | 200,000 |
| Target Date 5-10 Years | - | 75,000 | 175,000 | 37,500 | 37,500 | 175,000 | 500,000 |
| Target Date 10+ Years | - | 225,000 | 525,000 | 37,500 | 37,500 | 175,000 | 1,000,000 |
| Total \$ | 340,000 | 370,800 | 865,200 | 117,600 | 117,600 | 548,800 | 2,360,000 |

The average annual expected return on Neebing's investments is approximately 4.2%

The average return expectations (i.e., Annual 10-yr Compound Return Assumptions) detailed in the proposed Investment Plan is 4.2%. The combined standard deviation of the portfolio is approximately 5.8%. Risk and return attributes of the consolidated MNRI are detailed in Table 7 below.

This aligns with the risk and return objectives established in the Municipality's Investment Policy Statement and MCQ, as detailed in Report ONE JIB-O44-21.

Table 7: Risk and return expectations

| Outcome | Expected Return | Standard Deviation | Allocation Weight (%) |
|------------------------|------------------------|---------------------------|------------------------------|
| Cash | 0.7% | 1.3% | 12.7% |
| Contingency | 4.8% | 6.6% | 15.3% |
| Target Date 3-5 Years | 2.7% | 2.8% | 8.5% |
| Target Date 5-10 Years | 4.4% | 5.8% | 21.2% |
| Target Date 10+ Years | 5.3% | 7.9% | 42.4% |
| Overall | 4.2% | 5.8% | 100.0% |

5. CONCLUSION

The proposed Investment Plan is consistent with the Municipality's Investment Policy Statement. The proposed asset mix and fund allocations reflect the investment objectives and risk preferences expressed in its Investment Policy Statement and MCQ.

As a result, the Investment Plan is appropriate for the Municipality's objectives, risk tolerance, time horizons and available MNRI.

Drafted by: Colin Macdonald, Manager of Investment Services and Keith Taylor Chief Investment Officer

Approved by: Judy Dezell and Donna Herridge, Co-Presidents/CEO